Sustainable Development Strategy

Department of Finance

December 1997

Canada

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"As Canadians, we are privileged to enjoy a rich endowment of natural resources on which our economy and quality of life have been built. The beauty of our natural landscape is also one of the values which Canadians cherish. Managing our natural heritage wisely is a priority not just for today, but in the interests of future generations of Canadians.

Our approach to the economy and the environment is changing. No longer are economic growth and concern for the environment regarded simply as opposing goals. Increasingly, they are recognized as objectives which are closely linked and which need to be pursued together if we are to secure the future – not only of this country but of the planet itself.

Our economy is also changing, as a result of the increasing importance of knowledge-based growth and the impact of growing globalization. This challenges us to find new ways of growing the economy, creating jobs and ensuring our international competitiveness, while at the same time protecting the environment. It also creates important new opportunities in the form of new technologies, the scope for new and more efficient uses of energy, and new synergies between the economy and the environment.

Since 1994, the Department of Finance has been taking steps to achieve better integration of the economy and the environment in the policies for which it is responsible. The last four federal budgets have contained measures which help to level the playing field between renewable and non-renewable energy, promote energy efficiency, and encourage donations of ecologically sensitive land and environmental trusts.

This document, which outlines the department's plans for continuing to make progress in this regard, is part of the government's strategy for achieving what we all seek: a strong economy, more jobs, secure social programs – and a healthy environment."

The Honourable Paul Martin, P.C., M.P.
Minister of Finance
December 10, 1997

Foreword

This document sets out the sustainable development strategy of the Department of Finance, which has been prepared in response to the requirements of the *Auditor General Act*.

As a result of the 1995 amendments to the *Auditor General Act*, all federal government departments are required to prepare sustainable development strategies which describe departmental objectives and plans of action.

These strategies, to be tabled in Parliament by December 15, 1997, are to be updated at least every three years. Departments are also required to report annually on progress in implementing their strategies.

The amendments to the *Auditor General Act* also established the position of the Commissioner of the Environment and Sustainable Development.

The Commissioner reports to the Auditor General and is responsible for reporting annually to Parliament on the progress made by departments in meeting the objectives and implementing the plans set out in their sustainable development strategies.

Preparation of this strategy involved public consultations arranged with the assistance of the National Round Table on the Environment and the Economy. Comments received through this process were helpful in shaping this document, however, the strategy as set out, is solely that of the Department of Finance.

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Introduction

The government's primary goal is clear: to build a strong economy capable of creating the jobs Canadians need and a strong society which will sustain the quality of life and values of Canadians.

The Department of Finance has therefore pursued an economic and fiscal policy framework aimed at eliminating the serious problem posed by the federal deficit, which effectively mortgaged the future of Canadians to mounting debt loads and undermined confidence in the future. This required getting economic growth up and spending down.

As reflected in *The Economic and Fiscal Update* released by the Minister of Finance on October 15, 1997, a corner has been turned. The deficit has been reduced substantially, and the government is committed to a balanced budget no later than 1998-99. A lower deficit has in turn triggered lower interest rates, strengthened economic growth and contributed to greater job creation.

As also indicated in *The Economic and Fiscal Update*, the country is now on the verge of a new era, and a new debate about national priorities.

Notwithstanding the focus on the fiscal and economic situation, the department has also been committed to pursuing sustainable development. Federal budgets since 1994 have all taken steps that recognize the importance of environmental concerns in the management of the economy.

The department is committed to building on this progress and, within the parameters established by the government's policy agenda, will assess possible new environmental initiatives.

This document outlines the issues and priorities related to sustainable development on which the department plans to focus its efforts over the next three years.

The concept of sustainable development

Sustainable development is a broad and complex concept, which implies a significant shift in thinking about the relationship between the economy, quality of life and the natural environment, both now and with a view to the future.

In preparing this strategy, the department has been guided by the definition of sustainable development which is contained in the *Auditor General Act*.

What is sustainable development?

The *Auditor General Act* defines sustainable development as:

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

In the purpose statement of the role of the Commissioner of the Environment and Sustainable Development, the *Auditor General Act* provides further elaboration of sustainable development as:

"a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things:

(a) the integration of the environment and the economy;

(b) protecting the health of Canadians;

(c) protecting ecosystems;

(d) meeting international obligations;

(e) promoting equity;

(f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

(g) preventing pollution; and

(h) respect for nature and the needs of future generations."

In essence, the concept of sustainable development implies the desirability of moving in two basic directions:

- **Closer integration of economic, social and environmental objectives;**

  and

- **Intergenerational equity.**

Pursuing sustainable development presents major challenges which involve many players – the public, consumers, industry and government at all levels, as well as the international community.

It also raises many questions and policy issues, which are likely to take years to address. Some of these involve measurement issues. For example, what would it mean to attach value to the natural environment and how in practical terms would this be done? What is the concept of natural capital, and how does it relate to more traditional concepts of human capital and other forms of capital?

Still others involve the basis for taking action to deal with environmental concerns, involving the role of the so-called "precautionary principle" and the assessment of relative costs and benefits.

Also relevant is how the costs of environmental degradation could be internalized in the economy, in keeping with the fundamental and widely accepted principle that polluters are responsible for the environmental costs of their economic activity. This also involves considerations in economic theory relating to the treatment of "externalities" in dealing with public goods, resource use and pricing.

For policymakers involved in the process of day to day government decision-making, the concept of sustainable development poses two particular challenges:

- **Balance:** The concept of sustainable development suggests that economic growth and environmental protection can be, in the long run, mutually reinforcing. In the near term, however, decisions sometime involve balancing objectives such as those associated with regional development, jobs, social welfare and environmental protection.
- **Opportunity:** Sustainable development offers important new opportunities associated with the development of more environmentally friendly technologies, as well as potential synergies between greater efficiency in the economy and conservation of resources.

Ultimately, governments, business and the public in all countries are faced with the same fundamental challenge: how to protect the environment and, at the same time, promote economic growth, employment and social well-being. This challenge arises at a time of continued fiscal constraints, rapid technological change and growing globalization of both economies and environmental issues.

The department's policy role

In developing this document, the department has been guided by the suggestion in *A Guide to Green Government* that the preparation of sustainable development strategies be approached "through the lens of departmental mandates".

The primary mandate of the Department of Finance is to manage the economy and the government's financial resources. This is the principal role of economic policy, fiscal policy and tax policy. By virtue of its responsibilities in these areas, the department is also involved in the shaping of social policy, sectoral and regional economic policy, and other policy areas such as international trade and finance.

As this suggests, the activities of the department fall, for the most part, into the realm of policy analysis and development. Unlike most other government departments, Finance has little direct engagement in the operation of programs or delivery of services to Canadians.

While the department's policy role is significant, it is exercised within the broader policy framework established by the government, and in consultation with other departments. The annual federal budget, which sets out the government's economic and fiscal projections and its broad objectives for the period ahead, also reflects the collective approach of the government as a whole.

This strategy is a framework document designed to help focus the department's thinking on the relationships and inter-linkages between what the department does and sustainable development. It sets out priorities for policy analysis over the next three years, within the overall mandate and responsibilities of the department. Results will emerge as part of the department's ongoing efforts to implement the government's agenda in the context of priority setting and future budgets.

Key issues

- **Integrating the economy and the environment:** Build on progress in integrating environmental and economic considerations in tax, spending and related policies.
- **Building the future:** Improve intergenerational equity by promoting fiscal health and strengthening the economy and society.
- **Participating in the global economy:** Address the growing globalization of the economy and environmental concerns and the link to international competitiveness.
- **Greening operations:** Green the department's own internal operations.

Improved processes and co-ordination

In view of the policy orientation of Finance's mandate, this strategy encompasses a focus on enhancing the capacity of the department to address sustainable development issues.

The Department of Finance is a highly integrated department with considerable policy analysis capacity within its existing structure. It is also a relatively small department in terms of resources, most of which are people.

Given the cross-cutting nature of sustainable development, and its implications for economic, social and environmental policy development, the approach to sustainable development within Finance has been to incorporate it within the existing structure, rather than isolate it.

In practice, this means that responsibility for sustainable development issues is spread widely within the department, involving principally Economic Development Policy, Tax Policy, and Economic and Fiscal Policy, as well as Federal-Provincial Relations and Social Policy, and International Trade and Finance.

Recently, the department has taken steps to enhance its ability to deal with economic policy issues by reconstituting the economic development policy area as a separate branch reporting to the Deputy Minister. The Economic Development Policy and Corporate Finance Branch, which has a section dealing with environment, energy and resource issues, is the focal point in the department for sustainable development issues.

At the same time, the department has mandated its Departmental Co-ordinating Committee (DCC) as the vehicle for addressing sustainable development issues including implementation and reporting on this strategy. This is a senior committee, comprised of General Directors and other senior officials, which is responsible for broad policy co-ordination within the department, including the annual federal budget.

The department will also be increasing awareness of sustainable development by providing copies of this strategy to all members of the department, and including it in the materials provided to new employees.

Enhanced internal structure

- **Focal point:** Economic Development and Corporate Finance Branch
- **Delivery:** Economic Development Policy, Tax Policy, Economic and Fiscal Policy, International Trade and Finance
- **Co-ordination:** Departmental Co-ordinating Committee (DCC)
- **Awareness:** All employees

Public consultations

This strategy has also been prepared with the benefit of public consultations which were carried out with the assistance of the National Round Table on Environment and the Economy. (Information on the consultations process is contained in the Annex.)

In implementing this strategy, the department expects to build on its relationship with the National Round Table. It will also continue to welcome views and proposals from environmental organizations, industry, and the House of Commons Standing Committee on Environment and Sustainable Development on practical and effective ways of integrating sustainable development considerations into policy development.

These processes may also be supplemented through the extensive public consultations process carried out by the Standing Committee on Finance involving pre-budget hearings each autumn in Ottawa and in major centres across the country.

Public consultations

- National Round Table on Environment and the Economy
- NGOs
- Industry
- Standing Committee on Environment and Sustainable Development
- Standing Committee on Finance (pre-budget hearings)

Integrating the Economy and the Environment

When the government took office in 1993, it identified the need to develop closer integration of economic and environmental goals as one of its priorities.

The Minister of Finance in the 1994 budget subsequently established the Task Force on Economic Instruments and Disincentives to Sound Environmental Practices (the Task Force). Participants from industry, environmental groups, academia and the federal government examined a number of federal taxes and expenditures, and provided recommendations to the government on how to make them more economically and environmentally sustainable. It also identified, for further analysis and examination, a number of economic instruments and market-oriented approaches which could be used to achieve environmental goals more efficiently than traditional regulation.

Results of this exercise, together with other recommendations and analysis, have been reflected in each of the three subsequent federal budgets.

Using the tax system

A number of significant steps have been taken over the past four years to make the tax system more responsive to environmental considerations. These tax measures have focused on:

- **Environmental trusts:** Encouraging contributions to environmental trusts, involving measures to facilitate such trusts in the mining sector;
- **Land and charitable donations:** Encouraging the conservation of ecologically sensitive land and charitable giving generally, through changes to provisions governing charitable donations; and
- **Renewable and non-renewable resources:** Creating a more level playing field between renewable and non-renewable resources, following an analysis undertaken jointly by Natural Resources Canada and the Department of Finance.

The Department of Finance together with the Departments of Natural Resources and Industry, prepared a discussion paper describing the federal corporate income tax as it relates to virgin and recycled metals, paper, plastics and rubber. This document concluded that there are no appreciable differences in the tax regime for activities related to the production of virgin and recycled materials.

Summary of recent environment-related budget initiatives

Environmental trusts

- Deductibility of contributions to mining reclamation trust funds (1994).
- Extension of the mining reclamation trust rules to other environmental trusts, waste disposal sites and mines for the extraction of aggregates (1997).

Conservation of ecologically sensitive land

- Removal of the 20-per-cent income limit on the use of the charitable tax credit for donations of ecologically sensitive land for conservation purposes (1995).
- The charitable donations credit ceiling of 75 per cent of net income will not apply to gifts of environmentally sensitive land, or easement or covenants of such land (1997).
- Changes to the method of valuation for tax purposes of donations of easements and covenants of environmentally sensitive land to facilitate these donations (1997).

Charitable giving

- The charitable donations thresholds for a 29-per-cent credit was lowered from $250 to $200, thereby improving the fund-raising capacity of charitable groups involved in promoting sustainable development (1994).
- Environmental charities will benefit from the enhancement of incentives for donations of cash and publicly traded securities (1997).

Renewable and non-renewable

Resources and energy efficiency

- ❑ Measures to provide a more level playing field between renewable and non-renewable energy investments (1996, 1997):
  - ■ Tightening of eligibility rules for flow through shares that are issued by mining, and oil and gas sectors (1996).
  - ■ Extension of the use of flow-through shares to investments in renewable energy through the introduction of the Canadian Renewable and Conservation Expense (1996); inclusion of costs for test wind turbines (1997).
  - ■ Changes to Class 43.1 including relaxing the "specified energy property rules" to assist in the financing of renewable energy investments (1996); and expanding eligibility for Class 43.1 capital cost allowance treatment to certain acquisitions of used equipment and reducing the qualification threshold for photovoltaic systems (1997).
- ❑ Provision of $20 million per year for three years toward an incentive to promote renewable energy and energy efficiency investments linked to the National Energy Code for Buildings (1997).

Looking forward, the department plans to continue examining ways of improving the tax system to make it more compatible with Canada's economic, social and environmental priorities.

Regular representations are being made requesting that the tax system address environmental problems by changing incentives that can alter the behaviour of consumers and industry to better reflect the environmental consequences of their activities. These changes in incentives can occur either through the taxation of activities that are environmentally harmful, or through tax assistance for activities that are environmentally friendly. Such tax initiatives raise a variety of issues including their environmental effectiveness, their fiscal and economic consequences, and their efficiency relative to other instruments. These are issues that need to be carefully studied and examined. The department will continue, in co-operation with other departments, environmental groups, business and the public, to examine opportunities for integrating consideration of the environment and the economy into the tax system.

- ❑ ***Energy efficiency and renewable energy:*** *Continue to assess the effectiveness of existing tax measures for encouraging greater energy efficiency and use of renewable energy.*

- ❑ ***Energy consumption and transportation:*** *Develop a catalogue of available information on the structure and level of existing federal and provincial taxes on energy consumption and taxes on transportation in Canada, including input from provincial governments. This catalogue, together with the two previously released reports describing the tax treatment of virgin versus recycled materials and renewable versus non-renewable resources, will help to build the knowledge base on the structure of taxation in areas pertinent to environmental concerns.*

Reducing/eliminating subsidies

While the use of subsidies can be justified in some situations, in general they tend to create economic distortions and undermine the efficient functioning of the economy. At the same time, they can also encourage pressures on resources by disguising the real costs of economic activity, thereby serving as a barrier to sustainable development. Reducing or eliminating unproductive subsidies is in the interests of both the environment and the economy.

As part of the effort to reduce federal spending and restructure the role of the federal government, steps have been taken since 1994 to substantially reduce or eliminate many government subsidies, grants and contributions. The 1995 and 1996 budgets announced actions to substantially reduce subsidies to business by about 60 per cent between 1993-94 and 1998-99. The government has now shifted its focus and identified resources to invest strategically in key growth areas of the economy.

In particular, direct government subsidies and other supports to the transportation and agriculture sectors have declined significantly. In the 1995 budget, the government also indicated that direct financial support for energy mega projects would end after 1995-96, once the Hibernia project was completed.

At the same time, expenditures in some areas relevant to the environment and the economy have been refocused and increased. While total grants and contributions in the energy sector are projected to decline by about 75 per cent by 1998-99 (mainly reflecting projected declines in federal support for Hibernia), the Department of Natural Resources has taken steps to increase the share of grants and contributions for energy efficiency and alternative energy from about 6 per cent in the early 1990s, to 22 per cent by 1998-99.

- ❑ ***Subsidies:*** *Work with other departments and agencies to identify any further scope for reducing or eliminating subsidies which distort the economy, with attention to their potential impact on any potential environmental benefits, and to avoid a return to the kind of unproductive subsidies characteristic of past spending.*

Developing practical uses of economic instruments

Consideration of tax and fiscal measures to address environmental concerns is part of the increasing interest in the scope for using market-oriented approaches, or "economic instruments", to influence economic behaviour.

This approach rests on the assumption that market mechanisms, particularly price signals, can be instrumental in encouraging producers and consumers to recognize the environmental costs of economic decisions. In theory, this approach can also help address the problem of "externalities" by including the costs of pollution in the costs of production and consumption – in keeping with the principle of "polluter pays".

Economic instruments include the use of charges and taxes, deposit refund systems, and tradable permits, as well as incentives in the form of grants and concessionary financing. Generally speaking, these have come to be thought of as potentially useful adjuncts to, although not as a replacement for, an adequate framework of environmental legislation and regulation.

While the theory of economic instruments is well understood, and was addressed in the Task Force Report, in practice the use of economic instruments to achieve environmental goals has remained fairly limited. Studies by the Organization for Economic Co-operation and Development (OECD) suggest that economic instruments have tended to be used as a way of generating revenue, rather than as a means of promoting changes in the behaviour of producers and consumers.[1]

Thus far, product charges/taxes and deposit refund systems tend to be the most frequently used instruments, and have been introduced successfully in Canada by federal, provincial and municipal governments.

Recently, there has been growing interest in more innovative and complex instruments, such as tradable permit schemes, in which the private sector is able to trade the right to pollute within an established cap on emissions. Such schemes have been successfully introduced for methyl bromide and hydrochlorofluorocarbons (HCFCs), which are ozone-depleting substances, and appear to have potential in the area of greenhouse gas emissions.

- ❏ ***International experience:*** *Examine the use of economic instruments generally in OECD countries with a view to understanding their efficacy, competitiveness implications and the potential for their application in Canada.*
- ❏ ***Tradable permits:*** *Consider practical options and implications for the Canadian economy of domestic and international tradable permit schemes, credits and related approaches for reducing greenhouse gas emissions.*

[1] OECD, *Evaluating Economic Instruments for Environmental Policy* 1997, Paris, France, pg. 18.

- **Land management:** *Participate in the initiative of the National Round Table on the Environment and the Economy to examine economic instruments to encourage sustainability on private lands, in particular, private woodlot management, brownfield redevelopment, and habitat protection for endangered species.*

Reforming legislative and regulatory frameworks

While sustainable development is often cast in terms of taking account of the environment in economic decision-making, integration of the environment and the economy operates in both directions. Not only does economic activity affect the environment, but the approach to the environment can also have a significant impact on economic growth and employment.

There is nothing necessarily incompatible between sound environmental standards and sound economic management. However, a predictable, clear and efficient legislative and regulatory framework is a key element in creating the kind of climate needed to take advantage of emerging opportunities and sustain job creation. This framework also has implications for Canada's investment image abroad and the ability to attract foreign investment.

Under the auspices of the Canadian Council of Ministers of the Environment (CCME), the federal and provincial governments are working in partnership to promote sustainable development through the harmonization of environmental management issues that are of national interest, including environmental assessments, inspections and the development of national standards.

- **Environmental regulation:** *Continue, in co-operation with other departments, to encourage a policy framework conducive to environmental protection and a positive investment climate through reform of regulations, as well as increased harmonization of aspects of the environmental management framework between the federal government and the provinces.*

Building the Future

In preparing this strategy, the department has increased its appreciation of the relationship and the extent to which its approach to the overall management of the economy and the government's finances supports sustainable development, particularly with respect to intergenerational equity.

Maintaining a healthy fiscal climate

Since 1993, the government has followed a strategy based on getting the deficit down. As indicated in *The Economic and Fiscal Update* on October 15, 1997, this strategy is working. The deficit is down from $42 billion in 1993-94 to $8.9 billion in 1996-97, its lowest level in 20 years. Canadian interest rates have come down to their lowest levels in decades. And the economy is now growing at a strong pace and job creation is strong.

As a result of the better-than-expected economic performance, the federal government's net debt burden fell to 73.1 per cent as a share of gross domestic product (GDP) from 74 per cent in 1995-96, the first meaningful decline in more than 20 years. However, this level of debt burden remains unacceptably high – both historically and by international standards.

The government is committed to securing a permanent decline in the debt-to-GDP ratio. This will reduce the share of government revenue that has to be devoted to interest payments on the debt, and provide greater fiscal flexibility to deal with the needs of Canadians in the future. It also reduces exposure to potential future shocks and thus enhances the welfare of future generations, and encourages the long-run efficiency of the economy by increasing savings.

Most importantly, reducing the debt is in the interests of future generations. Younger Canadians have received relatively less benefit from the build-up of Canada's debt, as most of the increase in the debt has been for past consumption, rather than spending on productive and lasting investments. To ensure that younger Canadians are not left with an unduly large debt burden, the debt-to-GDP ratio must be reduced, while generations that benefited most from its build-up are still in the labour force.

> Reducing the debt-to-GDP ratio will ensure the legacy left to future generations is one of sound social and economic programs. [...] Bringing down the debt-to-GDP ratio is key to ensuring sustained long-term growth and job creation.
>
> *The Economic and Fiscal Update, October 15, 1997*

While the deficit is not yet eliminated, the government is committed to balancing the budget no later than 1998-99. The fiscal dividend, when it emerges, will be small and will grow slowly. However, the country is now on the verge of a new era – and a new debate about the potential use of the fiscal dividend.

This debate has been cast in terms of three options: make strategic investments in priority areas such as health care, education and pension systems, lifelong learning and training opportunities, and fostering and seizing opportunities to make Canada a leader in the global, knowledge-based economy, reduce the tax burden, or reduce the national debt.

> The debate should be about national priorities – about how best to build a strong economy and a strong society, one of both opportunity and security. […] The question is to find the right balance. What we must do is to ensure that the quantity of growth we all seek contributes to the quality of life Canadians deserve.
>
> *The Economic and Fiscal Update, October 15, 1997*

❑ ***National priorities:*** *The department welcomes views concerning how the goals of sustainable development can best be reflected in the development of policies to achieve the government's agenda, within these broad parameters.*

Prospering in a knowledge-based economy

Historically, the Canadian economy has been built on its rich endowment of natural resources. The resource sector is likely to remain an important generator of employment, particularly in some regions of the country. The nature of our resources has remained fairly consistent over time. What has changed, and changed dramatically, is the knowledge of how to use those resources.

As reflected in *The Economic and Fiscal Update* on October 15, 1997, the development of information and the use of knowledge are increasingly becoming the principal engines of long-term growth. This is occurring not only in what are widely considered to be "high tech jobs", like computer software and telecommunications, but also in the more traditional Canadian growth sectors like mining and forestry. Advances in knowledge are becoming increasingly important in all industries, and in all jobs.

In the future, the growth of the Canadian economy will increasingly depend on innovation – on developing the infrastructure of ideas and information on which jobs and growth depend, and the skills to use them. At the same time, in a world characterized by growing globalization and economic integration, Canada's future economic growth and prosperity will also depend on its ability to sustain its current strong, export-led growth.

The link between productivity, in the form of technologies and processes which are less energy and materials intensive, and the creation and use of knowledge offers new scope for developing approaches to economic growth and job creation. Innovation and globalization are creating vast new opportunities for Canadians in the form of new industries, new markets and new technologies.

The government has therefore committed to working with Canadians to build a strong economy based on knowledge, learning and innovation that will generate more and better jobs and raise living standards. Even during the period of deficit reduction, the government was able to identify resources to invest strategically in the key growth areas of the economy: education, research and development, export financing, and support for small and medium-sized businesses.

In this process, steps were taken where possible to include an environmental dimension into new policy initiatives. Technology Partnerships Canada ($250 million annually by 1998-99) supports the commercial development of new technologies, including environmental technologies. And the Canada Foundation for Innovation which was announced in the 1997 budget, includes a focus on the environment.

Canada Foundation for Innovation (CFI)

The Canada Foundation for Innovation was created to support the modernization of research infrastructure at Canadian post-secondary educational institutions and research hospitals in the areas of health, environment, science and engineering – in partnership with the private sector, provincial governments and others.

It is funded through an $800 million up-front investment by the federal government, and operates as an independent, not-for-profit corporation at arm's length from the federal government.

A Board of Directors is now in place. Initial projects are being considered and announcements are expected in the new year.

The government also encourages the development of new technologies through the assistance that it provides under the scientific research and experimental development (SR&ED) tax credit which provides $1.2 billion annually, and through tax measures that encourage the investment of venture capital. Encouragement is also given through government support for small and medium-sized business enterprises.

This has included assistance to high technology firms through loans of $1.1 billion provided by the Business Development Bank in 1996-97, the Small Business Loans Program (SBLA) which provided $2.2 billion in loans in 1995-96, as well as other small business programs and the regional development agencies.

Canada's emerging environment industry sector is playing a growing role in the new knowledge- and technology-based economy. In 1994, the Canadian market of environmental goods and services represented 2.6 per cent of the global market share. In 1995, the environment industry contributed over $15.6 billion in total revenues to the Canadian economy, represented exports of at least $664 million, and employed more than 123,015 people. This industry is expected to grow by 5 per cent a year.

The environment industry in Canada

55%: air pollution control, environmental engineering, recycling and the provision of other environment-related goods, services and construction

22%: solid waste management

12%: waste water treatment

11%: water supply and purification

Sources: Environment Industry 1995, Preliminary Data, Statistics Canada National Accounts and Environment Division – 16F0007XPE, and Environment Business International Inc.

❑ ***Environmental industries:*** *Examine, in conjunction with other departments, the role of environmental industries in the emerging knowledge-based economy, and the scope for encouraging them further.*

A key to success in the new knowledge-based economy is education. Canadians need the opportunity to acquire the skills and knowledge necessary to join the economic mainstream. This will better enable them to provide for their futures and, in the long run, will promote a more sustainable society and economy. Accordingly, the government has announced a number of steps to support the creation of a more sustainable future for Canadians.

❑ ***Children:*** *Work with the provinces to establish a timetable to increase the child tax benefit by a further $850 million (in addition to the $850 million announced in the 1997 budget).*

❑ ***Education:*** Develop plans to implement a Millennium Scholarship Endowment Fund, as announced by the Prime Minister in the fall of 1997, and assess the scope for other measures to encourage lifelong learning.

Building a strong society

While change opens up new opportunities, it also creates uncertainties. Canadians are concerned that they and their children not be left behind by forces over which they have no control. Canadians need the assurance of knowing that their health, education and valued social programs are secure, not only for the present generation but for the generations of Canadians to come.

To promote more sustainable health care, the 1996 budget announced $65 million to launch a new Health Services Research Fund for research on the delivery and quality of care provided to Canadians. The 1997 budget provided $150 million over three years for a Health Transition Fund to investigate new and better approaches to health care.

The federal government's principal support for Canada's health and social programs is the Canada Health and Social Transfer (CHST), for which total entitlements reached more than $25 billion in 1997-98. This transfer provides flexibility to provinces in designing social programs responsive to the needs of Canadians, and contributes to the sustainability of Canada's health and social programs.

In addition, equalization payments of approximately $8.5 billion in cash ensure that provincial governments can provide reasonably comparable levels of services to their residents at reasonably comparable levels of taxation, thus promoting equity among Canadians wherever they may live in Canada. In the case of territorial governments, Territorial Formula Financing also promotes equity among Canadians by providing funds to enable the provision of public services in the North comparable to those provided by provincial governments.

- ***Health and social transfers:*** *Legislation has been introduced to implement the government's commitment to raise the CHST cash floor from $11 billion to $12.5 billion annually, thus ensuring predictable and growing federal funding for health and social programs.*

Changing demographics in Canada, as in other industrialized countries, are exerting a powerful influence over future needs of Canadians who are no longer in the workforce. In particular, a rapidly ageing population, low birth rates and rising life expectancies suggest that, by 2030, there will be three workers to support every retired person, compared to five today.

The government has taken some important steps to make Canada's valued social programs more sustainable, not just today but for future generations, through proposed reforms to the three pillars of the retirement income system: old age security, the Canada Pension Plan, and tax-assisted private retirement savings.

Legislation recently introduced by federal and provincial governments, acting as joint stewards of the Canada Pension Plan (CPP), would ensure that the CPP is put on a sustainable footing through proposed changes to contribution rates. This would move the CPP from pay-as-you-go financing to fuller funding. The government is currently consulting Canadians on a new Seniors Benefit that would better target government support and moderate the growth of costs. Changes to both the CPP and the Seniors Benefit would fully protect the pensions of all current seniors. Steps have also been taken to help Canadians save for retirement through private pensions and savings plans.

- ***Retirement income system:*** *Pursue these actions to restore confidence in the retirement income system so that Canadians can be assured it will be there for them in the future, as it has been in the past.*

Ensuring the tax system contributes to a strong economy and strong society

Tax policy, which is a core responsibility of the Department of Finance, plays an important role in achieving the objectives of sustainable development.

First, along with fiscal policy, tax policy sets the framework within which the economy operates and, hence, is central to the country's economic and social performance.

Second, a number of tax instruments are available that can be used to influence specific aspects of the economic system, social policy and the environment. (See Chapter 1 for description of the link between the tax system and the environment.)

The principal roles tax policy can play in sustainable development are twofold. Tax policy can contribute to as strong an economy as possible by having a neutral tax system that allows for an efficient allocation of resources. Tax policy can also offset the impact of market imperfections, including those that may exist in the area of the environment. In some circumstances, tax policy instruments can be the most appropriate mechanism.

The Government of Canada raises tax revenues in a manner that, to the extent possible, achieves the above objectives. Our tax burden falls in the middle range of the 28 countries surveyed by the OECD, though they are higher than in the U.S. This is partly because, in comparison with the U.S., provincial and federal governments in Canada provide more services, particularly in the areas of health and education. Another contributing factor to the tax burden is that we place greater emphasis on a fairer income distribution.

The objective of fostering a strong economy through the tax system is served in two key ways. Levying taxes over a broad range of sources (for example, income taxes on businesses and individuals, sales and excise taxes) helps to keep tax rates low and revenues stable. In addition, continuous monitoring of the tax system and taking action to address deficiencies in the tax system help to ensure that economic decisions are made for business, and not for tax reasons.

On fairness, the Canadian personal income tax system is progressive and takes account of both income and individual circumstances to measure ability to pay. It also provides refundable tax credits such as the child tax benefit and the Working Income Supplement which reduce the tax burden of low- and middle-income earners. Fairness in the goods and services tax (GST) is primarily accomplished through the income-tested, refundable GST credit.

Businesses pay a corporate income tax to ensure that they contribute to the provision of necessary public services such as education. For example, corporations benefit from the existence of a skilled and trained workforce. The federal government contributes to ensuring that such training exists by

transferring funds to the provinces. Levying taxes on corporations also helps to ensure that foreign-based corporations pay tax on the income they earn in Canada.

Since 1994, over 35 major changes have been made or proposed to the tax system to enhance its fairness. With respect to personal income taxes, changes included increasing tax assistance for education and providing additional tax assistance for Canadians with disabilities. There were also tax initiatives to increase the support for charitable giving. Another personal tax initiative included eliminating both the $100,000 lifetime capital gains exemption and tax advantages available through family trusts. These changes had the objective of ensuring that Canadians who are better off pay their fair share of taxes. Other initiatives directed at fairness have included the Working Income Supplement and increasing deductions for education related expenses.

With respect to sales tax, the focus has been on reducing the sales tax burden on the disabled, the sick and on charitable and public sector organizations.

On the business income tax side, the focus has been on addressing deficiencies in the tax structure and ensuring that businesses contribute to dealing with the fiscal problem. One of the initiatives was to eliminate opportunities to defer tax on unincorporated business income and income earned by private holding companies.

Another measure was introduced to ensure that the prices charged by multinationals for goods and services provided to the Canadian operation reflect the market value of those goods and services. Otherwise, transfers may be made at inflated prices so as to avoid paying Canadian tax on the amounts transferred. Another corporate income tax change was to reduce the deduction in respect of business meals and entertainment expenses. Increases were also made to both the large corporations tax and the corporate surtax to ensure greater fairness.

Technical Committee on Business Taxation

As part of the monitoring and ongoing review of the tax system, the Minister of Finance established the *Technical Committee on Business Taxation* in the 1996 budget. The committee's mandate is to consider ways in which Canada's business taxation system could contribute more to the creation of jobs and economic growth; be simplified to facilitate compliance and administration; and be made fairer to ensure that all businesses share the costs of providing government services.

- *The department will examine the committee's report, which will be subject to public consultation, including any proposals relating to the environment.*

Participating in the Global Economy

The rise in the importance of knowledge as a driving force in economic growth, has been accompanied by the increasing globalization of the world's economies. This globalization has been fostered by a worldwide move towards liberalization of trade and investment policies, and has been made possible by advances in the speed and efficiency of communications and transportation.

Just as the economy has been subject to the forces of growing globalization, so too are environmental issues increasingly becoming international in scope. Historically, environmental concerns such as water quality or toxins tended to be visible and local in nature. Today, the agenda is turning to issues like climate change and persistent organic pollutants, which involve complex scientific, environmental, social and economic considerations, and whose resolution depends on the collective action of the international community.

The challenge is to bring about greater integration of economic and environmental objectives in the international arena both to address environmental goals, and to enhance Canada's international competitiveness.

Negotiating international environmental agreements

The growing number of international environmental agreements and instruments in areas ranging from hazardous wastes to air and water pollutants, underlines the need to ensure that international commitments, and domestic economic and environmental policies point in similar directions.

The issue of climate change, involving proposed reductions in greenhouse gases, represents a major challenge for the international community and individual governments. It is a classic and important sustainable development issue, involving many issues and near-term costs versus longer-term benefits. While reducing emissions is likely to require significant changes in the behaviour of producers and consumers, it also offers opportunities in the form of an impetus to the development and adoption of new, more energy efficient technologies.

Climate change is also a quintessential "global commons" issue. Unilateral actions by most countries will not solve the problem, and raise concerns about competitiveness. This underlines the need for effective international approaches, as well as domestic action.

❑ ***Climate change:*** *Support other departments in improving the analysis of the economic implications of reducing greenhouse gas emissions; analyze effective approaches and policies for domestic action in co-operation with other departments; and assess the implications of effective mechanisms, such as tradable permits at both the domestic and international levels.*

Negotiating future international trade and investment agreements

While globalization has added many new competitors for Canada in world trade, it has also added even more potential consumers of Canada's goods and services. By providing improved access to larger markets, trade liberalization has not only allowed Canadian producers to specialize in what they do best, it has also given Canadian firms and consumers access to new and better quality products and services at lower prices.

Globalization of markets has also been a driving force for integration of environmental and economic considerations beyond the domestic arena. This has become most evident in environment/trade and investment discussions, as well as the activities of export credit agencies and activities of international institutions such as the World Trade Organization (WTO), the World Bank, the International Monetary Fund (IMF), and the Organization for Economic Co-operation and Development (OECD).

While, in many cases, the Department of Finance is not the only player, it has a leading role for international financial institutions, import policy including the Customs Tariff, and participation in the Group of Seven (G-7) economic policy co-ordination. The department also ensures that the government's international initiatives and obligations are consistent with its general economic policy agenda.

Environmental considerations have played an increasing role in Canada's trade liberalization efforts both regionally, through the North American Free Trade Agreement (NAFTA) and the Canada-Chile Free Trade Agreement, and multilaterally through the WTO and the OECD.

Overall, trade liberalization is viewed as having a positive effect on the global environment. It has promoted more efficient allocation of the world's resources and increased the economic wealth of nations, particularly developing nations, thus enabling them to address environmental concerns more effectively.

While the primary responsibility for international trade rests with the Department of Foreign Affairs and International Trade, the Department of Finance is involved in the context of its general responsibilities for management of the economy as a whole, as well as its direct responsibilities for the Customs Tariff and other forms of import policies. In this regard, it has consistently supported the integration of environment considerations in the context of trade negotiations and discussions.

More specifically related to its areas of responsibilities, the department has supported, in the context of the Asia-Pacific Economic Co-operation Council (APEC), the elimination of tariffs and non-tariff barriers to trade in environmental goods and services. This is intended to support the export of Canadian environmental goods as well as the adoption of environmentally appropriate technologies in other countries. Liberalized trade in environmental goods and services is thus supportive of sustainable development objectives.

During the last round of multilateral trade negotiations, Canada supported exempting certain environmental subsidies from trade actions. This exemption was included in the final text of the agreement on subsidies and countervailing measures of the World Trade Organization. As the next round of multilateral trade negotiations approaches, further consideration will be given to the relationship between trade and environment.

- ❑ ***Trade and environment:*** *Work with the Department of Foreign Affairs and International Trade on the relationship between trade and environment in the context of the World Trade Organization and possible future trade negotiations, and on a multilateral environmental sector initiative to achieve the liberalization of trade in environmental goods and services in the context of APEC.*

- ❑ ***Tariffs:*** *Review specific requests to remove tariffs where they are identified as a significant disincentive to the acquisition of environment technology products.*

In the meantime, in negotiations on a multilateral investment treaty under the auspices of the OECD, Canada supports the inclusion of provisions against the lowering of environmental standards to attract investment. Such a provision was included in the North American Free Trade Agreement (Article 1114). If concluded, a multilateral agreement on investment would not affect Canada's ability to set or enforce environmental regulations or standards. Consistent with the core "national treatment" principle of the agreement, the Multilateral Agreement on Investment (MAI) would ensure the equal application of environmental standards on both foreign and domestic investors. In the context of our Foreign Investment Protection Agreements, Canada has supported measures ensuring that none of the obligations prevents a signatory from adopting appropriate environmental measures.

- ❑ ***International investment:*** *Work with other government departments and the provinces to ensure that Canada continues to advocate strong language on the environment in the negotiations on the Multilateral Agreement on Investment.*

Developing environmental assessment guidelines for export credit agencies

Canadian exports of goods and services are a key source of growth and job creation. The Export Development Corporation (EDC), as Canada's export credit agency, plays a central role in supporting export trade by helping Canadian exporters compete against foreign businesses in responding to international business opportunities.

In the past five years, Canada has actively promoted, among its trading partners, the development of environmental guidelines for export credit agencies. The achievement of a multilateral consensus on incorporating environmental factors into export support activities is fully consistent with a sustainable development strategy. It is the most effective way to establish stronger environmental standards

internationally while maintaining a level playing field for Canadian exporters and favouring the development of a healthy Canadian economy. Unilaterally adopting environmental standards could place Canadian exporters at a competitive disadvantage, resulting in lost job opportunities and diminished Canadian influence over the environmental impacts of foreign projects.

At their next meeting in May 1998, major industrialized countries have agreed to review the progress achieved within the OECD to develop internationally agreed upon environmental guidelines for export credit agencies.

❑ ***Export credits:*** *Participate with the Department of Foreign Affairs and International Trade in discussions on this issue within the OECD, and strongly encourage the development of common environmental guidelines for export credit agencies.*

Involving international financial institutions

Responsibility for the management of Canada's relations with the International Financial Institutions (IFIs)is shared between the Minister of Finance and the Minister of Foreign Affairs. The Minister of Finance is Canada's Governor for the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development. The Minister of Foreign Affairs is Canada's Governor for the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. The ongoing relationship with these latter institutions is managed by the Canadian International Development Agency. Contributions to the international financial institutions account for a significant portion of Canada's total Official Development Assistance (ODA).

Canada was one of the first countries to push the International Financial Institutions to take a more integrated approach by considering not only the economic impacts, but also the social and environmental consequences of their operations. In part because of this pressure from Canada and other countries, the old way of thinking, where support for the environment was often seen to conflict with growth, has been replaced by a recognition that longer-term economic development and environmentally sustainable practices must go hand in hand.

The International Monetary Fund's primary role is to promote macroeconomic stability, an essential factor in helping member countries start on the path to longer-term sustainable development. Without a stable macroeconomic framework, people are unable to plan and make financial decisions that will help support future generations. The International Monetary Fund has created a new "environmental unit" which advises on developmental consequences, paying special attention to their longer-term sustainability.

Recognizing the long-term links between economic development and sustaining the environment, the World Bank has recently created a new Environmentally Sustainable Development vice-presidency, which undertakes a broad range of programs that address such issues as environmental management, social policy, rural development and agriculture, and water and sanitation.

The Bank's specific focus on the environment has also increased dramatically over the past decade, with lending growing from a negligible amount to almost U.S. $2 billion over the past three years. Under pressure from Canada and other countries, the Bank is also placing increasing emphasis on better understanding the impacts of its operations in order to ensure the longer-term sustainability of its programs.

Canada and other shareholders are also underlining the importance of protecting the global environment for current and future generations. Consequently, the World Bank is broadening its commitment from a national focus to incorporate explicitly global sustainability as part of its assistance strategy. It is also one of the executing agencies for the Global Environmental Facility (GEF), which considers threats to the global environment, specifically in the areas of climate change, ozone, biodiversity and desertification.

Canada is also encouraging both the International Monetary Fund and the World Bank to pay closer attention to the level and quality of public expenditures, including primary education and health, and the design of social safety nets targeted to assist the neediest groups. These two institutions, as well as the regional banks, are also involved in the Heavily Indebted Poor Countries (HIPC) Debt Initiative. This initiative seeks to reduce the debt burden of these countries to a sustainable level by writing off a portion of their debts.

Given the serious ecological disasters in most of its program countries, the European Bank for Reconstruction and Development is the first international financial institution to have been given a proactive environmental mandate by its founders. It is directed by its statutes to "promote in the full range of its activities, environmentally sound and sustainable development".

Since both the European Bank for Reconstruction and Development and the World Bank undertake projects, these institutions are required to undertake environmental assessments for any projects which could have potentially significant environmental implications. The Department of Finance's Legal Services Branch has examined the requirements imposed on both the World Bank and the European Bank for Reconstruction and Development and has determined that these are consistent with the requirements of the *Canadian Environmental Assessment Act.*

❑ ***International Financial Institutions:*** *Continue to press the issue of sustainable development in the institutions for which the Minister of Finance has primary responsibility.*

Greening Operations

The Department of Finance is administered in conjunction with the Treasury Board Secretariat of Canada (FIN/TBS). Together they have recently introduced an Environmental Management System to guide the greening of operations. This initiative will build on, and provide a framework for, existing environmental initiatives in all facets of departmental operations: procurement, facilities management and fleet management.

The joint operations of Fin/TBS have adopted an Environmental Management System format from the International Standards Organization's standard 14004:1996(E) document, *Environmental Management Systems – General Guidelines on Principles, Systems and Supporting Techniques.* The purpose of the Environmental Management System is to integrate systematically environmental considerations into the departments' overall management system. It provides the framework for resource allocation, responsibility assignments and practice, and procedure and process evaluations on an ongoing basis.

The action plans summarized in this section build on existing initiatives and best known practices. The Environmental Management System will ensure that, through these action plans, general sustainable development principles are entrenched in the day-to-day operations of the department.

Each year the department purchases consumer, commercial and industrial goods that have an impact on the environment. The department has adopted the applicable Treasury Board materiel management policies to guide procurement decisions. Within the parameters of these policies the department promotes the purchase of goods and services that make efficient use of energy and natural resources, can be potentially reused or recycled, and have minimal and safe disposal requirements.

Procurement

- ❑ *To support these practices, Fin/TBS will develop a purchasing guide outlining procedures and protocols, resource information and tools (i.e. product specifications, checklists and evaluation techniques). The guide will be concise and designed to increase the awareness of staff about key issues and resource locations.*
- ❑ *All purchasing and administrative officers will be briefed on the guide and its underlying goals and principles. One of the key objectives of this guide is to ensure that employees examine the actual need for the purchase first and foremost. Reducing the number of purchases, through needs assessment and alternatives such as recycling and reuse, is the most effective way to have a positive impact on the environment.*

The department leases office space in the East Tower of L'Esplanade Laurier in downtown Ottawa. It has no regional offices and does not own any property. There are concerns with the environmental impacts associated with renovating, operating and maintaining the building. As a tenant, however, the department does not have direct responsibility over these functions. Yet, it can affect the environmental impacts through changes in employee behaviour and influence on property managers and owners.

- ***Solid waste reduction:*** *Finance will continue to work towards the commitment made by departments in 1992, to reduce waste by 50 per cent by 2000. It will continue to contribute to this target by diverting material away from the waste stream through the employment of the 3R principles – REDUCE, REUSE and RECYCLE.*

- ***Energy efficiency:*** *Review engineering studies completed over the years. Most recently in September 1997, the study, L'Esplanade Laurier – Building Envelope Investigation, focused on water ingress, solar gain and heating/cooling loss problems, with Public Works and Government Services Canada.*

- ***Fleet management:*** *Promote energy efficiency and emissions reduction by analyzing the efficiency of vehicle use. FIN/TBS has only five vehicles, all used by senior management. Alternative transportation fuels such as propane, natural gas, methanol and ethanol will be used where cost-effective and feasible, in compliance with the* Alternative Fuels Act.

Effective communication underpins the department's greening initiative. Its success is dependent on the direct involvement of employees, including senior management.

Communications

- *Develop a comprehensive communications plan that will focus on increasing awareness of environmental issues and identify ways in which employees and external parties can contribute to greener operations.*

- *Maintain and enhance this awareness and enthusiasm through periodic reports of progress and success, primarily by building on the Environmental Information site on the Fin/TBS intranet InfoSite. Opportunities to co-ordinate some of these communications with other federal agencies will also be explored.*

Annex

Consultations

Consultations on this strategy were undertaken in conjunction with the National Round Table on the Environment and the Economy (NRTEE) which agreed to assist the department with the preparation of its sustainable development strategy by holding a workshop for this purpose in early November. The draft document was also posted on the Internet, and circulated to other government departments for their input.

The November consultations consisted of a one-day session held in Ottawa with members of the National Round Table on the Environment and Economy, and other participants.

This session provided a number of valuable comments which were taken into consideration in the redrafting of the final document. The department also received a number of written submissions from stakeholders and other federal departments.

Some of the comments which are not specifically reflected in the changes made to this document, will provide a valuable tool in the future as the department continues to make progress towards sustainable development.

List of participants invited to the consultations

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Chairman
ENSYN Technologies Inc.

Mr. Jean Bélanger
Chair, National Round Table on the Environment and the Economy
Economic Instruments Task Force

Dr. Arthur J. Hanson
President and CEO
International Institute for Sustainable Development (IISD)

Mr. Joseph O'Neil
Vice-President
Woodlands Division
Repap New Brunswick Inc.

Mr. John Wiebe
President and CEO
GLOBE Foundation of Canada and Executive Vice-President
Asia-Pacific Foundation of Canada

Mr. Paul G. Antle
Chairman, President and CEO
SCC Environmental Group Inc.

Ms. Elizabeth Jane Crocker
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Ms. Cindy Kenny-Gilday

Ms. Carol Phillips
Director
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Ms. Lise Lachapelle, Vice-Chair
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Ms. Mary Granskou
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Mr. Ron Portelli
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Ms. Sandy Baumgartner
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Dr. Bob Page
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Mr. Mark Rudolph
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Mr. George Miller
President
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Mr. John Grey
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